

**COMMISSIONERS' OPEN MEETING
MINUTES OF MEETING HELD JUNE 13, 2012**

In attendance: Commissioners David Langhorst, Tom Katsilometes, and Richard Jackson; Chris Barry, Michael Chakarun, Valerie Dilley, Roxanne Lopez, Mark Poppler, Keith Reynolds, Liz Rodosovich, Randy Tilley, Bill von Tagen, Mike Teller; Alan Dornfest, Renee Eymann, McLean Russell; George Brown, Chelsea Kidney, Carl Olsson, Erick Shaner, Phil Skinner; Brad Jones, Kirby Sandberg.

Guests: Mayra Aya, Lacey Ryan.

Public Session.

Commissioner Tom Katsilometes convened the meeting.

Presentation of Certificates of Service.

Roxanne Lopez, Human Resource Officer, acknowledged Brad Jones, who was receiving a Certificate of Service, and stated how much all of his work efforts were appreciated.

Roxanne, with the Commissioners, presented the certificate to Brad Jones, Tax Compliance Technician (Audit & Collections), for 5 years of service.

The Commissioners thanked Brad and noted how his years of service and efforts were commendable and appreciated. Brad was invited to stay for the rest of the meeting.

Administrative Reports.

Audit & Collections, Randy Tilley.

Randy Tilley, the Division Administrator for Audit & Collections (A&C), noted that the A&C recoveries for the month of May totaled \$16,746,236. This brings the total recoveries through May 31 to \$134,472,858 of which \$7,728,790 is attributable to the temporary compliance initiative staff. The overall return on investment is \$8.22 for each \$1 invested and \$9.21 for each \$1 invested in CI 12 staff.

At the end of May, staff has completed 24,877 audits and examinations, and closed 86,803 collection cases.

Chairman Langhorst noted that at the meeting with the editorial board in Lewiston, he mentioned that the recoveries were now running into diminishing returns. In addition, the board said that Rule 921 is still good. Randy added that A&C is moving resources into the more productive areas and there are more cases in non-filing units. Redge Clapp, Tax Discovery Bureau Chief, and the supervisors are working to meet the challenge of more cases each year.

Public Information Office, Liz Rodosovich.

Liz Rodosovich, the Public Information Officer, noted that the Public Information Office (PIO) issued two news releases—on the change in withholding tables, and the impact of the homeowner's exemption on property values. PIO is planning to issue another release this week, on the addition of the property tax estimator to the agency website.

PIO received nine media inquiries in the last month. Subjects ranged from farmers markets to the Democratic majority on the State Tax Commission, to Boise County being billed for the Arrowrock hydro project.

For the first time ever, the commissioners attended editorial board sessions with newspapers in Lewiston and Coeur d'Alene to coincide with the Spring Tours with the ISCPA and Field

Offices. The meetings generated positive press, and the commissioners will do more of this in keeping with the agency's campaign to improve public confidence.

Following on the success of an April Rotary Club speech, Chairman Langhorst is scheduled for two more Rotary Club sessions—one in Idaho Falls in July, the other in Garden City in August. That's also part of the "2 in 2" campaign to boost public confidence in the agency.

Revenue Operations, Doreen Warren.

Doreen Warren, the Revenue Operations Division Administrator, noted addressing – along with Randy Tilley and Mike Chakarun – all the feedback and ideas received during the very productive Spring Tour meetings with the Field Offices and the Idaho Society of Certified Public Accountants (ISCPA). They appreciate the continued partnership in tax administration.

Revenue Operations (RO), through May 31, received approximately 540,000 e-filed individual income tax returns, which accounts for approximately 77% of their total volume received to date. RO received 519,000 at this point last year.

RO received 31,000 e-filed business income tax returns, which accounts for almost 52% of RO's total volume to date. Last year at this time, RO received 16,000. As of this morning, RO paid 497,000 refunds totaling \$256 million, with an average refund of \$515. Last year at this time, RO paid 488,000 refunds totaling \$239 million, with an average refund of \$490.

Mark Poppler, Chief Financial Officer, asked about what more to expect with the refunds, since he is managing the refund fund. Doreen responded that RO would get the dollar amount for him.

Management Services, Mark Poppler.

Mark Poppler, Chief Financial Officer, noted having a new employee in Management Services (MS), Kevin Voss, the Senior Buyer in the Purchasing Department. Kevin comes from the Department of Health and Welfare with many years of purchasing experience. He started this week and is training with Kathy Paul, who retires – after 14 years of service – at the end of the week.

Mark reported a few months ago that the first notification of a claim was received on the Pilot Demonstration Project Fund. Some also call this the STARS program – Sales Tax Anticipation Revenue. This is a law passed in the 2008 legislature for the purpose of establishing a new method for financing public transportation infrastructure. Basically, a developer who spends the necessary minimum (currently \$4 million) on a qualifying retail complex can register with us, and have 60 percent of their sales tax payments go into the Pilot Demonstration Project Fund. If the developer is then able to obtain approval from the Idaho Transportation Department to build an interchange or other public transportation improvement with a minimum value of \$6 million, they can file claims for cost reimbursement from the Pilot Demonstration Project Fund. The sales tax diverted is capped at a maximum of \$35 million per project. Mark provided this update because on June 1 the first claim was paid for nearly \$1.7 million. Approximately \$6.9 million currently remains in the fund.

MS received official notification that the Board of the Idaho Falls Auditorium District voted, at their May 29 meeting, to continue operating and collecting their tax independently and to not enter into the proposed MOU with the Tax Commission. They did inquire about the possibility of other limited services related to collections, but we do not believe that fits the statute that allows us to enter into administrative agreements with local taxing districts. MS has learned several lessons from this attempt to accommodate the District, and much of the work and experience of creating the MOU and evaluating our ability to provide such services will make responding to the next request smoother. A brief discussion on the fund followed.

The Board of Examiners approved a change to the state travel policy at its meeting in February. This change, to be effective July 1, 2012, will allow agencies to reimburse travelers using their own personal vehicles for business at the current IRS rate of 55.5 cents per mile. The current allowable rate is 45.5 cents per mile. The official change to the Idaho State Tax Commission Travel Policy will be voted on later in the open meeting.

Reports on Rules Committees.

Income Tax, Administration & Enforcement, Kilowatt, Mine License Rules – Tax Policy Manager, Michael Chakarun.

Michael Chakarun, Tax Policy Manager, reported on the Income Tax, Administration & Enforcement, Kilowatt, Mine License Rules Committee, in the Chair Cynthia Adrian's absence. The committee held two Income Tax Rules committee meetings since the last open meeting, on May 16 and June 7. They are working on 19 Income Tax rules and 5 Administrative/Enforcement rule changes.

At the May meeting, first drafts of 11 rules were reviewed. None of these rules are in the negotiated rule-making classification. Five of the 11 rules were approved by the Committee as presented. Six of the rules were discussed and modified by the Committee and deferred to the June meeting for further action. Two members of the public were present at this meeting—one representing a practitioner group (ISCPA) and another from a private industry group (Idaho Banker's Association).

At the June meeting, the Committee began work on six rules under the negotiated rule making process. In addition to Tax Commission staff, participants in the negotiated rule making discussion were five members from the practitioner community and one company representative.

First drafts on Income Tax Rules 291 & 877 (Pass-through entities: Composite returns and backup withholding) were introduced, followed by a lively discussion. The practitioner community would like to see an option where the taxpayer could sign an affidavit stating that they promise to file, rather than be included in the composite return or have backup withholding paid by the entity. Language in the bill which states that, "a pass-through entity is not required to withhold taxes under this section if withholding is not required pursuant to a rule adopted under this section" may provide flexibility and will be discussed with legal staff to determine if that is a viable option under the current statute. Tax Commission staff will continue discussions on these rules with interested parties.

The first draft of negotiated Income Tax Rule 290, which is being kept for historical reasons (if 2011 return is filed late, etc.), was presented. The committee approved Income Tax Rule 290 as presented. No comments from parties outside of the Idaho State Tax Commission were made or received. First drafts of three other rules identified as negotiated rules were reviewed and approved. No comments from interested parties were made or received.

Second drafts of six non-negotiated rules presented at the April meeting were reviewed and five were approved. Action on one administrated rule was deferred, pending legal clarification of Administrative Rule 225.

Property Tax Rules – Committee Chair, Alan Dornfest.

Alan Dornfest, Property Tax Rules Committee Chair, reported that there was a lot of attention at the committee meeting on May 22 due to the amount of controversy over some of the rules considered. The next committee meeting will be on June 20.

One of the biggest challenges was Property Tax Rule 620P, the exemption for never-occupied residential improvements and commercial, industrial, and residential site improvements.

The subcommittee met on June 5 regarding the sticky sections on the definition of a conveyance and the beneficiaries of the exemption. There were different sides on what is a conveyance and complete disagreement on the beneficiaries' exemption, which may necessitate a hearing before the Commission. The cost information developers need to provide was also an issue

Alan noted that another property tax temporary rule is expected this summer for addressing the administration of the special budget certification rule that grants Boise County additional levies.

Sales Tax Administrative Rules – Committee Chair, McLean Russell.

McLean Russell, the Sales Tax Rules Committee Chair, noted the public has commented on several of the rules that the committee is considering. An example was the free tasting use tax, where there was concern from the wine industry regarding any property removed from resale would be subject to use tax.

The meeting on June 12 was straightforward, and the committee was waiting on any negative rule comments. The next committee meeting will be on June 27 and McLean expects there will be more public comment.

Chairman Langhorst liked the way all the rules are consolidated on one report now and commended Shelley Sheridan, Rules Coordinator, for putting the report together.

Business Requiring Vote of the Commission.

Minutes: Open Meetings – May 9, 2012 .

Chairman Langhorst moved that the minutes of the open meeting held on May 9, 2012, be approved, and Commissioner Jackson seconded. There were no comments or amendments. All voted in the affirmative, and the minutes were approved.

Travel Policy and Rules 10 – 2011.

Mark Poppler recommended an amendment to the current Idaho State Tax Commission Travel Policy and Rules 10 – 2011, to increase the allowable rate of reimbursement (45.5 cents per mile) to the IRS rate of 55.5 cents per mile, for travelers using their personal vehicles for business. This new rate will be effective as of July 1, 2012.

Chairman Langhorst moved that the amendment to the Travel Policy and Rules 10 – 2011 be approved and Commissioner Jackson seconded. There were no further questions or comments. All voted in the affirmative, and the amended Travel Policy and Rules 10 – 2011 was adopted.

Public Comments.

There were no more public comments.

Other.

There was no other business.

Recess.

Commissioner Katsilometes recessed the Public Session for 10 minutes to reconvene for the commissioners to meet with the Commission's legal counsel.

Reconvene Meeting.

Commissioner Katsilometes reconvened the open meeting and welcomed Keith Reynolds, the agency's Division of Financial Management (DFM) Budget Analyst.

Commissioner Jackson moved to amend the agenda and move into the Executive Session beginning at 9:35 a.m. Chairman Langhorst seconded. Commissioners Langhorst, Katsilometes, and Jackson voted in favor by roll call.

Executive Session.

The Commission met in executive session with its legal counsel pursuant to Idaho Code § 67-2345(1)(f) to discuss the current status of litigation to which the Commission is a party. No matters requiring a vote of the Commission resulted from the executive session.

Commissioner Katsilometes declared the Executive Session was ended.

Bill von Tagen, Lead Deputy Attorney General, presented This Day in History.

This Day in History, June 13:

- 1633 – King grants Lord Baltimore a Charter for Maryland.
- 1837 – First Mormon missionaries leave Ohio for British Isles.
- 1866 – House passes resolution for the 14th Amendment.
- 1900 – Boxer Rebellion began in China against the Europeans and Christians.
- 1907 – Lowest June temperature for lower 48 states recorded at 2° F.
- 1912 – Albert Berry made first parachute jump from an airplane.
- 1917 – Germany bombed London.
- 1922 – Longest attack of hiccups ever recorded began - 435,000,000 total hiccups.
He died 11 months after the attack stopped.
- 1927 – New York City held tickertape parade for Charles Lindbergh.
- 1942 – O.S.S., the predecessor to the CIA was formed.
- 1951 – U.N. forces reach Pyongyang Korea.
- 1980 – U.N. Security Council calls on South Africa to free Nelson Mandela.

#1 Song

- 1970 – Beatles' "Long & Winding Road" hit #1 and stayed there for 2 weeks.
"Let It Be" became the #1 album and stayed there for 4 weeks.

There being no further business, the meeting adjourned.

Valerie Dilley
Secretary

Tom Katsilometes
Chair